KNOW YOUR MARKET HUB

MARKET OVERVIEW – Q4 2018

The median fixed salary movement for the fourth quarter of 2018 was 2.6%, which is higher than the inflation rate of 1.8% recorded by the Australian Bureau of Statistics (ABS) in December 2018.

Mercer's pay increase barometer has seen a shift from salaries being passed at at-market rates to below-market rates. Despite both this and ongoing low wage price growth (as recorded by the ABS), the market has continued to feel optimistic about the future.

TRENDS IN REMUNERATION

In the fourth quarter of 2018, the median fixed pay movement – which refers to the same employees, in the same jobs and at the same organisations – increased to 2.6%, in line with Mercer's forecast.

Whilst the overall median fixed pay movement increased on the previous quarter, there has been a broader range of increases passed on by organisations in our database. The majority of same-incumbent movements recorded in the three months to the end of December were between 2% and 3.99%, but over one-third fell into other pay increase levels, with 13% of incumbents receiving zero increases.

Movements by career stream place professionals and executives at the forefront this quarter at 2.7%. Heads of organisation matched the general market, with a movement of 2.6%, while both para-professional and management level employees recorded lower than the general market movement at 2.5%.

A breakdown by state/territory reveals that the Australian Capital Territory continues to record the highest annual increases at 3.5%. South Australia received the second highest movement at 2.8%. Salaries increased in New South Wales by 2.7%, above the general market. Queensland recorded movements equal to the general market at 2.6%. While, Victoria, Western Australia, Tasmania, and the Northern Territory have reported increases of 2.5%, 2.2%, 2.1%, and 2% respectively.

Mercer's salary forecast for the financial year is that the movement will remain at 2.6%, reflecting the low unemployment rate and expected rise in inflation. To generate our forecasts, we combine data from our remuneration database (same-employee fixed salary movements) with key economic indicators, and our understanding of market sentiment from our conversations with clients.

THE MARKET

The market has continued to feel optimistic about the future right till the end of 2018, with the remuneration sentiment index averaging over 16% over the year, indicating a positive general outlook. The index recorded a result in January 2019 at 12.5%, with the majority of respondents (69%) expecting the situation to be the same in the next six months and 25% of respondents anticipate it will be better. The remaining 6% expect that it will be worse than the last six months.

Mercer's pay increase barometer has seen a shift from at-market (stable) increases to below-market (contraction) increases when compared to last quarter. Despite, the below market increase being the most prominent, it is only reporting 34%. Both at-market and above-market (expansion) increase is set at around 33%.

The new hire pay rate is currently -1.6%, down by almost three percentage points on the previous quarter. This is the lowest reported figure since March 2018. It indicates that the market is hiring at salaries less than those already in the role and no longer willing to pay a premium for new hires.

Mercer's measure of the gender pay index has increased this quarter to 2.8%. This means that overall, the market is offering female employees' salaries 2.8%, on average, below male employees. Overall, the gender pay index has been fairly consistent over the past year, oscillating largely between 2.7% and 2.9%, which does not bode well for achieving gender pay equality in the near future.

AUSTRALIAN ECONOMY SNAPSHOT

The latest economic indicators from the Australian Bureau of Statistics (ABS) characterise the Australian economy as having strong GDP growth, low inflation, a low unemployment rate and low wage price growth.

In December 2018, the seasonally adjusted national unemployment figure was 5% [*ABS catalogue 6202.0*]. The participation rate – the number of people either employed or actively looking for work as a proportion of the entire labour force – has tracked just under the 66% mark since the start of the year, reporting to 65.6% in December 2018. Although the low employment rate is encouraging, an increasing proportion of part-time workers has helped to maintain the low figure. The RBA is forecasting the unemployment rate to be 5.3% by the end of the financial year.

In terms of other key economic indicators there has been little change since our last quarterly update, the Wage Price Index (WPI) and inflation (as measured by the Consumer Price Index (CPI)) continue to be low. The all-groups CPI reported an increase of 0.5 percentage points in the December 2018 quarter following a 0.4 percentage point increase in the September 2018 quarter [*ABS catalogue 6401.0*]. The annual change from December 2017 to December 2018 is 1.8% – now outside the RBA's target range of 2%-3%, but still higher than what was forecast. Relatively low inflation continues to go hand-in-hand with low wage price growth reflected in the WPI, which has grown year-on-year by just 2.3% (September 2018). Rises in both the WPI and CPI are expected over the coming year, although continued global economic uncertainty is likely to have an impact.

Economic growth, as measured by Gross Domestic Product (GDP) increased by 0.3% (seasonally adjusted) in the September quarter, bringing annual growth to September 2018 to 2.8%. The reported figure was much lower than expected as a result of a slowdown in the construction sector and softer household consumption.